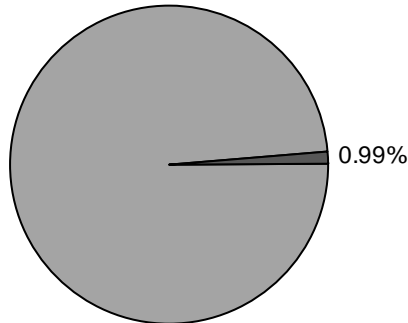


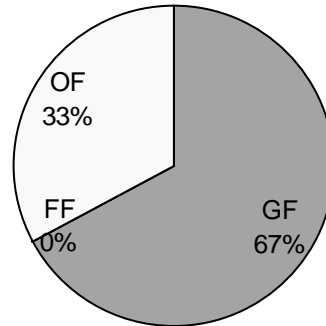
FY2007 Budget Briefing

Bureau of Finance and Management

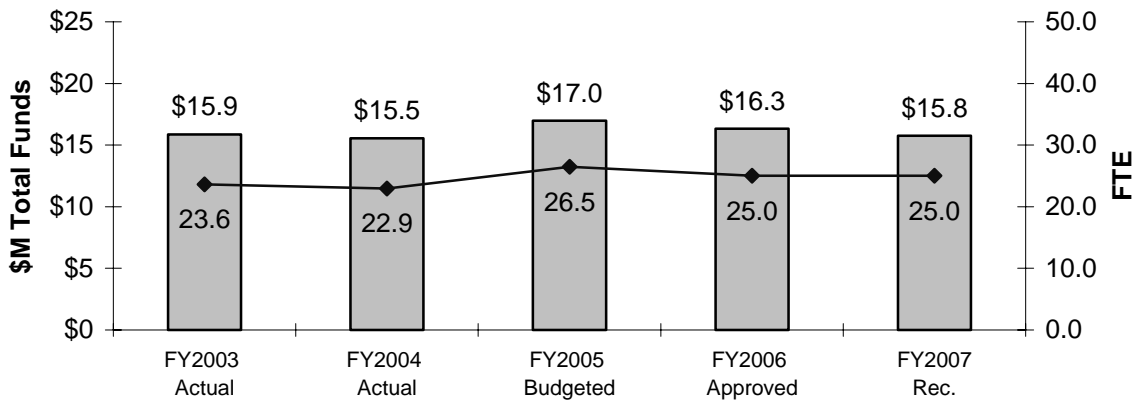
**Agency's Share of Total Recommended
General Fund Budget FY2007**



**Agency's Funding Source Split
FY2007 Recommended Budget**



Budget History



Key Responsibilities

- To promote efficient and effective management of the state of South Dakota;
- To advise the Governor on the overall fiscal policy;
- To complete and present the annual fiscal plan; and
- To manage the central accounting and payroll systems.

Key Personnel

- Commissioner Jason Dilges
- Finance Officer, Jim Neiles

Department Total

The Bureau of Finance and Management's budget is funded with general funds and with user fees from state agencies. For FY2007, the Governor recommends a decrease of \$600,024 from the State General Fund. A reduction of a similar amount was made in the prior budget year as well.

Item	Actual FY2005	Approved FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2006
Personal Services	1,395,739	1,568,861	1,568,861	1,634,406	65,545	4.2%
Travel	21,900	28,051	28,051	28,051	-	0.0%
Contractual Services	13,115,857	14,601,956	13,974,687	13,974,687	(627,269)	(4.3%)
Supplies and Materials	93,758	113,795	113,795	113,795	-	0.0%
Grants and Subsidies		-	-	-	-	0.0%
Capital Outlay	94,322	10,000	10,000	10,000	-	0.0%
Other	2	-	-	-	-	0.0%
TOTAL	14,721,578	16,322,663	15,695,394	15,760,939	(561,724)	(3.4%)
Funding Sources:						
General Funds	11,825,082	11,210,124	10,582,855	10,610,100	(600,024)	(5.4%)
Federal Funds	-	-	-	-	-	0.0%
Other Funds	2,896,496	5,112,539	5,112,539	5,150,839	38,300	0.7%
TOTAL	14,721,578	16,322,663	15,695,394	15,760,939	(561,724)	(3.4%)
FTE	22.8	25.0	25.0	25.0	-	0.0%

The Governor's recommendation throughout this analysis also includes funding for Performance And Compensation Equity (PACE) movement of 2.5% for those employees who are paid under the job-worth of their pay range, a 3% across-the-board increase for all permanent employees, and an increase in the employer paid portion of the state health insurance plan. The recommended amounts for each segment of the compensation package are as follows:

	General Funds	Federal Funds	Other Funds	Total
2.5% PACE Movement	5,732	0	8,066	13,798
3% Across-the-Board	18,482	0	25,406	43,888
Health Insurance	3,031	0	4,828	7,859
Total	27,245	-	38,300	65,545

Major Expansion and Reduction as Recommended by the Governor

Budget Item	Agency Request			Governor's Recommendation		
	State General Fund	All Funds	FTE	State General Fund	All Funds	FTE
A. Sale Leaseback	(627,269)	(627,269)	0.0	(627,269)	(627,269)	0.0
B. Governor's Salary Policy				27,245	65,545	0.0
C. FTE Internal Shift		-	0.0	-	-	0.0
Finance & Management Division			1.0			1.0
Financial Operations Division			(1.0)			(1.0)
Total	(627,269)	(627,269)	0.0	(600,024)	(561,724)	0.0

- A. General funds are provided for the payment of the sale/leaseback. The original closing date was December 18, 1986, and the final payment date will be December 1, 2016. The funds budgeted are receipted and paid out the same day. There is no impact to the State General Fund. The activity was refinanced in 1996 to take advantage of a more favorable interest rate.

The reduction is based on the payment schedule provided by the South Dakota Building Authority and was requested by the agency and recommended by the Governor.

- B. Governor's Salary Policy: 3% COLA; 2.5% movement to midpoint; and 6.5% increase for employee health insurance
- C. The agency requests an internal shift of 1 FTE from the Financial Operations Division to the Finance and Management Office. No funding was moved and the Governor recommends the change.

Division of Finance and Management

The mission of the Division of Finance and Management is to manage and coordinate the statutory functions of the Bureau of Finance and Management as they relate to serving as a liaison with the public and other governmental agencies of executive branch fiscal policy; to advise the Governor on overall fiscal policy and management procedures; to complete and present the Governor's annual fiscal plan for the state; to ensure that the directives of the Governor and Legislature are fulfilled; to improve the efficiency and effectiveness of state government programs, processes, and procedures; to control and provide accurate uniform accounting and payroll/personnel information to state offices on a timely basis, meeting all deadlines as prescribed by laws; to act as a service bureau to all users of the central accounting and central payroll operations and provide educational assistance to all state offices on accounting and payroll matters; to apply an efficient and accountable method of revenue and expenditure controls by which the state can record its financial transactions in a systematic way and extract historical data in an orderly fashion; and to keep the accounting and payroll systems aware of the ever-increasing demands for new and more complete information, yet remain responsive to the every day needs of user agencies.

The agency requested no change this year and the Governor recommends only an increase for the recommended salary policy.

Item	Actual FY2005	Approved FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2006
Personal Services	1,395,739	1,568,861	1,568,861	1,634,406	65,545	4.2%
Travel	21,900	28,051	28,051	28,051	-	0.0%
Contractual Services	2,089,932	2,477,945	2,477,945	2,477,945	-	0.0%
Supplies and Materials	93,758	113,795	113,795	113,795	-	0.0%
Grants and Subsidies	-	-	-	-	-	0.0%
Capital Outlay	94,322	10,000	10,000	10,000	-	0.0%
Other	2	-	-	-	-	0.0%
TOTAL	3,695,653	4,198,652	4,198,652	4,264,197	65,545	1.6%
Funding Sources:						
General Funds	799,157	803,477	803,477	830,722	27,245	3.4%
Federal Funds	-	-	-	-	-	0.0%
Other Funds	2,896,496	3,395,175	3,395,175	3,433,475	38,300	1.1%
TOTAL	3,695,653	4,198,652	4,198,652	4,264,197	65,545	1.6%
FTE	22.8	25.0	25.0	25.0	-	0.0%

Revenues

Other Fund Revenue Source

	<u>Actual</u> <u>FY2004</u>	<u>Actual</u> <u>FY2005</u>	<u>Estm.</u> <u>FY2006</u>	<u>Estm.</u> <u>FY2007</u>	<u>% Change</u> <u>FY2004</u>
Deposited to the State General Fund Budget	\$138	\$73	\$100	\$100	(27.5%)
Total	\$138	\$73	\$100	\$100	(27.5%)

Selected Performance Indicators

	ACTUAL FY2004	ACTUAL FY2005	ESTIMATED FY2006	ESTIMATED FY2007
Billing Vouchers Processed	19,279	19,011	20,000	20,000
Expense Vouchers Processed > \$500	8,260	8,240	8,500	8,500
Receipts Processed (CRT's)	181	169	200	200
Accrual Financial Statements	21	26	26	26
Journal Vouchers Submitted	414	582	600	600
Complete Governor's Budget Document	Annual	Annual	Annual	Annual
Finalize State Operating Budget	Annual	Annual	Annual	Annual
Rule and Regulation Fiscal Notes	92	92	100	100
Transfer Requests	72	57	70	70
Contract Carryover Requests	28	50	30	30
Interim Appropriation Meetings	2	3	2	2

Sale/Leaseback – BFM

The mission of this program is to make payments on the lease entered into between the former Board of Charities and Corrections and the South Dakota Building Authority dated December 1, 1986.

Item	Actual FY2005	Approved FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2006
Personal Services	-	-	-	-	-	0.0%
Travel	-	-	-	-	-	0.0%
Contractual Services	11,025,925	10,406,647	9,779,378	9,779,378	(627,269)	(6.0%)
Supplies and Materials	-	-	-	-	-	0.0%
Grants and Subsidies	-	-	-	-	-	0.0%
Capital Outlay	-	-	-	-	-	0.0%
Other	-	-	-	-	-	0.0%
TOTAL	11,025,925	10,406,647	9,779,378	9,779,378	(627,269)	(6.0%)
Funding Sources:						
General Funds	11,025,925	10,406,647	9,779,378	9,779,378	(627,269)	(6.0%)
Federal Funds	-	-	-	-	-	0.0%
Other Funds	-	-	-	-	-	0.0%
TOTAL	11,025,925	10,406,647	9,779,378	9,779,378	(627,269)	(6.0%)
FTE	-	-	-	-	-	0.0%

➤ **Sale/Leaseback History:**

- In the 1980's the Legislature sold most state-owned buildings and leased them back for state use. This was a revenue generating initiative for the state to use the investment income on the money received from the sale of the buildings. Part of the investment income was to be used to pay for the leases, and the other portion would be realized as net earnings.
- The state sold its office buildings valued at approximately \$200,000,000 to the South Dakota Building Authority.
- To pay for the buildings, the South Dakota Building Authority sold bonds. Bond payments by SDBA to the bondholders would be made out of payments by the state for the use of the same buildings.
- The state then took the \$200,000,000 and purchased an annuity contract for \$183,500,000 on the lives of a pool of retired state employees in the SDRS. The revenue stream to the state from the annuity contract would be used to make payments to the SDBA. Of the remaining \$16.5 million, \$14.5 million was used to fund one-time capital projects, and \$2 million was held in reserve to protect against the pool of retired employees dying faster than actuarial projections.
- At the end of the 30-year contract (2016), the state will resume ownership of the buildings from the South Dakota Building Authority.

- The Building Authority provides for the payment of the original sale/leaseback (Foss, Anderson, State Library, Commerce Building, Becker-Hansen, and Soldiers' and Sailors' War Memorial buildings). The original closing date was December 18, 1986, and the final payment will be December 1, 2016. The funds budgeted are receipted and paid out the same day. There is no impact to the State General Fund. Payments associated with this sale/leaseback are funds 0112 and 0122. The activity was refinanced in 1996 to take advantage of a more favorable interest rate. The final payment remains December 1, 2016.

The reduction is based on the payment schedule provided by the South Dakota Building Authority.

This is only a portion of the sales-leaseback initiative; the remaining portion is reported through the Bureau of Administration's budget.

Computer Services and Development

The mission of this division is to provide funding for the development and maintenance of computer systems in various state agencies.

Item	Actual Transferred FY2005	Approved FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2006
Personal Services	-	-	-	-	-	0.0%
Travel	-	-	-	-	-	0.0%
Contractual Services	-	1,717,364	1,717,364	1,717,364	-	0.0%
Supplies and Materials	-	-	-	-	-	0.0%
Grants and Subsidies	-	-	-	-	-	0.0%
Capital Outlay	-	-	-	-	-	0.0%
Other	-	-	-	-	-	0.0%
TOTAL	-	1,717,364	1,717,364	1,717,364	-	0.0%
Funding Sources:						
General Funds	-	-	-	-	-	0.0%
Federal Funds	-	-	-	-	-	0.0%
Other Funds	-	1,717,364	1,717,364	1,717,364	-	0.0%
TOTAL	-	1,717,364	1,717,364	1,717,364	-	0.0%
FTE	-	-	-	-	-	-

- This pool of authority was created to provide agencies with “emergency” expenditure authority in cases where the Bureau of Information and Technology (BIT) had time and resources to do special projects for the agency. This discourages *all* of the agencies from requesting additional authority, anticipating BIT had time available to do their projects.
- In FY2003, the transfer of authority was to BIT and not to an agency.
- The fund previously received \$500,000 from the State General Fund. That amount was reduced to \$400,000 in the FY2002 budget and then eliminated entirely in the FY2003 budget.
- No transfers were made in FY2004 nor in FY2005. The entire amount reverted.

History of Transfers from the Computer Services Pool in BFM

<u>Fiscal Year</u>	<u>Budgeted</u>	<u>Transferred</u>	<u>Remainder</u>
FY1998 - General Funds	\$ 500,000	\$ 500,000	\$ -
FY1998 - Other Fund Authority	\$ 1,717,364	\$ 1,700,000	\$ 17,364
FY1999 - General Funds	500,000	500,000	-
FY1999 - Other Fund Authority	\$ 1,717,364	\$ 1,023,000	\$ 694,364
FY2000 - General Funds	500,000	500,000	-
FY2000 - Other Fund Authority	\$ 1,717,364	\$ 780,000	\$ 937,364
FY2001 - General Funds	500,000	500,000	-
FY2001 - Other Fund Authority	\$ 1,717,364	\$ 1,572,724	\$ 144,640
FY2002 - General Funds	400,000	400,000	-
FY2002 - Other Fund Authority	\$ 1,717,364	\$ 785,445	\$ 931,919
FY2003 - Other Fund Authority	\$ 1,717,364	\$ 1,717,364	-
FY2004 - Other Fund Authority	\$ 1,717,364	-	\$ 1,717,364
FY2005 - Other Fund Authority	\$ 1,717,364	-	\$ 1,717,364

Other Departmental Issues

A. Interim Appropriation Actions

No interim appropriation actions were taken. However, the Agency transferred \$100,300 from the Personal Services budget to the Operating Expense budget during the interim.

B. Audit Findings

FINDING NO. 01100200401

An internal control deficiency was noted with respect to the monthly statewide bank reconciliation process.

Analysis:

United States General Accounting Office, *Government Auditing Standards*, 2003 revision, states:

“Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, and violations of laws, regulations, and provisions of contracts and grant agreements.

The June 2004 reconciliation of the State's bank account was not completed until seven months after year-end.

As a result, the State experienced increased exposure to accounting errors or irregularities not being detected in a timely manner.”

Recommendation:

We recommend the monthly statewide bank reconciliation be completed in a timely manner to assure all cash transactions are properly recorded on the State's accounting system.

Agency's Response:

The Bureau of Finance and Management is in the process of increasing staff to meet the increased resource needs associated with implementation of GASB statements. Duties will be reassigned to utilize all available resources in a way that will result in the bank reconciliation being completed in a more timely fashion.

C. FY2005 Reversions

	General	BOA Other	Central Acct. Other	Total
BFM				
Personal Services	\$ 789	\$ 38,595	\$ 30,922	\$ 70,305
Operating Expenditures	\$ 68	\$ 15,223	\$ 469,886	\$ 485,177
Total	\$ 856	\$ 53,818	\$ 500,808	\$ 555,482
Reverted % of Total Fund Budget	0.1%	11.4%	16.8%	13.2%
Computer Services and Development				
Contractual Services			\$ 1,717,364	\$ 1,717,364
Reverted % of Total				100.0%

D. Agency Specific Questions

1. Please provide a copy of the most recent long-term capital improvements budget as provided by SDCL 4-7-19.
2. What changes have been implemented to address the 2004 audit finding:

“An internal control deficiency was noted with respect to the monthly statewide bank reconciliation process.”
3. Provide condition statements, as defined by SDCL 4-7-41, for the following funds:
 - a. REDI Fund,
 - b. Future Fund,
 - c. all funds planned to be used by the Department of Game, Fish, and Parks in FY2007, and
 - d. all funds planned to be used by the Bureau of Information and Telecommunications in FY2007.
4. Provide a full-time equivalent staffing report as provided by SDCL 3-8-6.3.